

SUPERIOR PROPANE

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Income Fund

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2001

Annual Report

making the right moves
at the right time

SUPERIOR PROPANE

INCOME FUND

A strategic part of your investment portfolio



At Superior, we are focused on growing distributions and delivering value to our customers and investors.

By all measures, SPF.UN is a superior income fund. SPF.UN has achieved substantial growth in market value and posted increased distributions each year.

The initial public offering ("IPO") of October 8, 1996 was priced at \$10.95



per trust unit. In 2001, our units reached a record high of \$17.50 and closed at \$16.94 on December 31, 2001. Cumulative cash distributions totalled \$7.17 per trust unit over that time-frame, rewarding our investors with a total return of 150%.

For 2001, unitholders captured a total return of 20%, compared to a 13% negative total return for the TSE 300 over the same period.

The graph illustrates changes from October 8, 1996 to December 31, 2001 in cumulative return to unitholders of an investment in Trust Units of the Superior Propane Income Fund (SPF.UN) compared to the TSE 300 Total Return Index (TSE 300) and the Total Unitholder Return of the Income Trust Index designed by Scotia Capital (Income Trust Index).

Superior Propane
INCOME FUND

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An income fund's measure of success is the stability and profitable growth generated from its underlying business and the cash flow available for distribution. Here's how the Superior Propane Income Fund stacks up.

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How best practices, a commitment to service and greater cost efficiencies combine into one smart business model for customers and investors.

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The integration of ICG has led to increased efficiencies and higher distributions for Superior Propane Income Fund unitholders. The full story behind the financial results is presented in the MD&A.

TRUSTEES' & AUDITORS' REPORTS CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A detailed look at the numbers for 2001, with comparisons to 2000.





Not all funds are created equal, nor do they perform at a superior level. Here's a fund with some unique advantages.

Income funds have gained substantial popularity since the meltdown of technology stocks, the recent economic slowdown in Canada and the U.S., and the ensuing low interest rate environment. Once again, investors are taking a value approach in making investment decisions. They are seeking real returns generated by real businesses with real growth potential.

An income fund's measure of success is the stability and profitable growth it generates from its underlying business and the free cash flow available for distribution to

Superior has a stellar performance record and great growth potential.

unitholders. Unlike conventional companies that generally re-invest free cash flow back into their business, income funds distribute to investors substantially all of their free cash flow, on a monthly or

quarterly basis. Your Fund enjoys a stellar performance record and has been successful in increasing cash distributions each year since its inception in October of 1996.

Distributable income available to unitholders from operations in 2001 was \$78.3 million or \$1.71 per trust unit, an 8% increase over the \$1.58 per trust unit paid by the Fund for operating results achieved in 2000.

Your Fund owns Superior Propane Inc. and, as an investor, you directly participate in the earnings of a mature and stable business with continued growth potential.

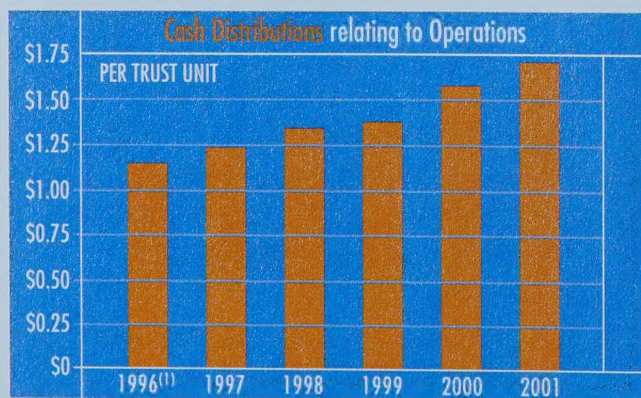
Superior began operations in 1951 and has grown internally and through acquisitions. With almost 1,800 well trained and dedicated people, Superior delivers propane, related products and services to approximately 300,000 customers from coast to coast.

Your Fund trades on the Toronto Stock Exchange (TSE) under the symbol SPFUN. With 45.9 million trust units outstanding, it has a market capitalization in excess of \$750 million, making it one of the larger and more liquid income funds. In addition, your Fund has a \$100 million convertible debenture listed on the TSE under the symbol SPFDB which provides investors with an annual interest payment of 8%, payable semi-annually.

Centred on the propane business, SPFUN offers several advantages

With the decline in interest rates in the past decade, investors have been searching for higher yielding investments. In general, income funds yield a significant premium over guaranteed investment certificates and prevailing government bond rates. Today, investors can choose from a variety of income trusts, including limited partnerships, oil and gas royalty trusts, real estate investment trusts, (known as REITs), and income funds.

Not all funds are created equal, however, nor do they perform at a superior level. The propane business is a mature distribution and services business and is ideally suited for an income fund structure. Superior's earnings are not based on a depleting asset base. Distributions to unitholders are after funding predictable capital outlays required to maintain current business operations. Unlike oil, gas and mining trusts that have direct commodity price exposure, propane supply is plentiful and commodity price changes are generally passed through to the customer by Superior. A clean-burning, environmentally friendly, efficient and portable fuel, propane has diverse uses in residential, commercial cooking and heating, industrial, automotive, construction, forklift truck and agricultural applications. Diversity of end-use and



(1) IPO Forecast



geographic markets provide for operational and customer diversification and stable financial performance.

The completion of the merger with ICG Propane in the fall of 2001 continues to generate cost savings and offers upside for investors into 2002 and beyond. To achieve continued growth in distributable cash flow over the long term, management is currently considering investment opportunities outside of the retail propane business. More information on the propane business, our financial performance and growth strategy is provided in the remainder of this Annual Report.

The Fund's quarterly distributions help you save

Your Fund pays quarterly distributions on or about the 15th day of January, April, July and October to unitholders of record on the last day of each preceding quarter. Any remaining undistributed cash flow earned by Superior in the previous calendar year is distributed annually as a dividend or return of capital by the Fund to unitholders with the first quarter distribution (April 15) of the following year. Effective December 12, 2001, the regular quarterly cash distribution rate was increased to \$0.40 per trust unit. Trust units are eligible for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing (DPSP) and Registered Education Savings Plans (RESP). Our goal is to continue making the Fund an

TOP THREE FEATURES YOU SHOULD KNOW ABOUT SPF.UN

- 1 SPF.UN has an excellent track record and offers investors direct participation in the earnings of the propane business, a mature and stable business with continued growth potential.
- 2 The total return for SPF.UN since inception is 150%. An investment of \$10,000 in the Fund's IPO on October 8, 1996, assuming reinvestment of all cash distributions in additional trust units, was worth \$25,000 on December 31, 2001.
- 3 Superior enjoys an investment grade credit rating and has the financial strength to support its growth strategy.

attractive and profitable investment compared to other investment alternatives such as stocks and bonds. For more information, including a summary of cash distributions since inception together with tax information, visit our investor relations section at www.superiorpropane.com.

The Fund's governance provides checks and balances

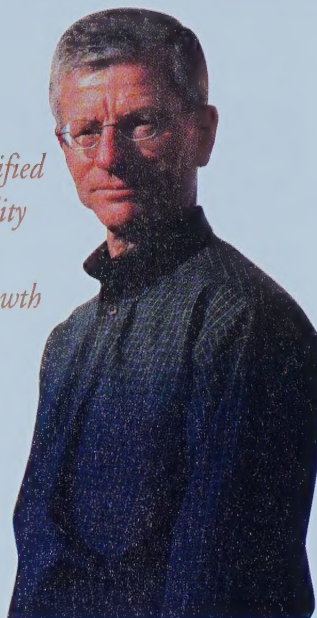
The trustees of the Fund, as well as Superior's Board of Directors and senior executives, consider good corporate governance to be central to the effective and efficient operation of the Fund and Superior. The Fund is a limited purpose trust. The Board of Trustees currently consists of three trustees who are independent of, and

unrelated to management and Superior, although Mr. Green, Chairman of the Board of Trustees, serves on the Board of Directors of Superior as the Fund's representative. The trustees are appointed annually at the annual general meeting of unitholders. The Fund does not conduct active business operations and the role of the trustees is primarily to act on behalf of the Fund as a holder of common shares and shareholder notes of Superior and to manage the limited affairs of the Fund. On January 31, 2001, the Declaration of Trust was amended with the approval of the unitholders to provide the Fund with the power to issue debt securities on terms acceptable to the Fund to support Superior's growth strategy. More information on Superior's governance practices is available in the Information Circular of the Fund prepared in connection with its April 25, 2002 Annual General Meeting of unitholders.

Communications with investors and unitholders relating to the Fund are primarily the responsibility of the Fund's administrator. Superior's Executive Chairman, the President & C.E.O., the Executive Vice-President, Corporate Development & C.F.O., and the Investor Relations Manager (who also serves as Secretary to Superior and the Fund) have been designated with primary communication responsibilities. The Fund has a written communication and disclosure policy, and regular meetings and discussions between these individuals ensure quality and timely communication and disclosure to investors, analysts, brokers and other interested parties.

COMMENTARY *with Executive Chairman Grant Billing*

“Strong diversified operations, quality customer service and a sound growth strategy are key components for continued success in 2002 and beyond.”



Superior has steadily grown since it first opened its doors in 1951 with three branch offices in Ontario. By making the right moves at the right time, Superior has grown through acquisitions and by internally generated expansions. The establishment of the Superior Propane Income Fund in the fall of 1996 was the beginning of a new growth profile for Superior. In May 1998, Geoff Mackey, Mark Schweitzer and myself, together with funds managed by Enterprise Capital Management Inc., purchased a 10% ownership in the Fund as well as the rights under the Superior management agreements. Since that time, Superior's growth has accelerated with the acquisition of ICG Propane in late

1998 and our continued emphasis on improving operational efficiencies.

We have been successful in increasing cash distributions for our unitholders each year since inception of the Fund from \$1.15 per year forecast in the IPO to \$1.71 earned from operations in 2001. Our trust units currently trade in the \$17.00 range compared to an IPO price of \$10.95. Initial unitholders have been rewarded with a 150% total return on their investment.

Since 1998, the catalyst for increased cash distributions and growth in unitholder value has been the cost savings generated from the acquisition and subsequent integration of ICG Propane. This integration was completed in October of 2001 on budget and in time for the busy 2001/2002 winter heating season. The Fund's distributable cash flow increased by 8% from \$72.5 million in 2000 to \$78.3 million for 2001, despite high propane commodity prices experienced early in 2001, softening economic conditions, and record warm weather in the fourth quarter. For the twelve months ended December 31, 2001, our investors captured a total return of 20%, compared to a 13% negative total return for the TSE 300 over the same period.

The merger allows us to improve our services and expand our value-added product offerings to a larger customer base. By combining

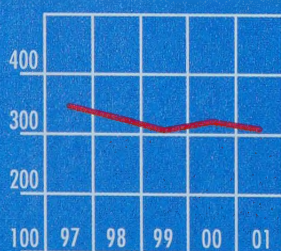
management, the corporate offices, and consolidating our 240 branch and satellite locations into 67 larger market centres and 123 satellites and storage yards, substantial synergies were achieved. 2002 results are expected to include a full year of merger benefits. In 2002, Superior will focus on volume growth and further improving operating efficiencies through the optimization of customer routing and other business processes. The level of integration cost savings currently being realized is at or above our original projection of \$20 million to \$25 million.

While the merger of Superior and ICG is complete, the August 30, 2000 decision of the Competition Tribunal permitting the merger, was appealed by the Competition Bureau. On April 4, 2001, the Federal Court of Appeal found that the Tribunal should have considered a broader definition of merger "effects" and ordered the Tribunal to re-determine its decision on that basis. The Tribunal re-hearing took place in October of 2001 and a decision is expected during the first half of 2002. Superior continues to strongly believe in the merits of its position.

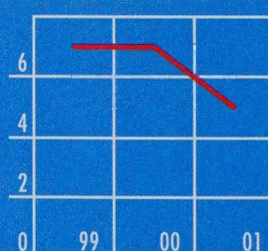
2001 presented challenging economic conditions and a difficult operating environment for propane retailers. Tight propane inventory levels and wholesale price spikes driven by the unprecedented surge in natural gas prices at the beginning of the year

HOW WE DEFINE VALUE

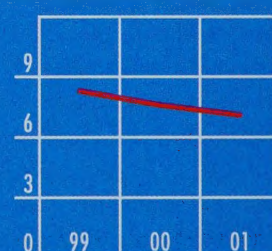
Propane is a mature business and our gross profit remains relatively stable over time. We add value by reducing our cost structure and making the business more efficient.



Stable Gross Profit
(\$ Millions)



Reduced Maintenance Capital
Expenditure Requirements
(\$ Millions)



Reduced G&A as % of Gross Profit
(%)



tested management's capabilities. The higher pricing environment triggered customer conservation efforts, leading to depressed sales volumes. Approximately 50% of Superior's sales volumes are heating related and 50% are related to economic activity. Warmer than normal temperatures across Canada throughout the year, particularly in the fourth quarter when temperatures were 13% warmer than last year, affected sales volumes during the latter months of the core heating season. The general slowdown in the Canadian economy, accelerated by the terrorist attacks of September 11 in the U.S. also depressed overall demand. In particular, forestry demand was suppressed by the U.S. lumber dispute and forklift demand suffered from reduced manufacturing activity.

Overall, our volumes declined by 16% to approximately 1.7 billion litres with low margin automotive volumes accounting for 39% of the decline. Wholesale propane prices moderated significantly from first quarter levels and the impact of reduced volumes was partially offset by improved sales margins, largely achieved as a result of a better business mix. For further details on our financial performance for 2001, please see the Management's Discussion and Analysis section and the Consolidated Financial Statements and Notes included in this Annual Report.

I would like to acknowledge the valuable contribution of the 278 people

who left our company during the integration period and thank our current workforce. Almost 1,800 strong, they have been providing quality services to our customers from coast-to-coast during a demanding year. Together, we merged two well-known and well-established Canadian retail propane companies and melded two very distinct cultures into Superior, making it a stronger propane supplier and an even better choice for our customers. The Superior values – *Respect, Integrity, Service and Excellence* (RISE) – will assist us in continuing to meet the needs of our customers and provide steady, growing returns to our investors for years to come.

We have the financial strength to support our business plan and to take advantage of other growth opportunities.

In January 2001, the Fund successfully accessed capital markets by selling \$100 million of 8% convertible unsecured debentures, due July 31, 2007. We have built a strong balance sheet. Senior debt was reduced to \$101.0 million at December 31, 2001, providing Superior with very healthy debt leverage and coverage ratios which are substantially lower than those of our U.S. competitors. This provides us with financial flexibility to

efficiently implement our propane business plan and to pursue other acquisition opportunities.

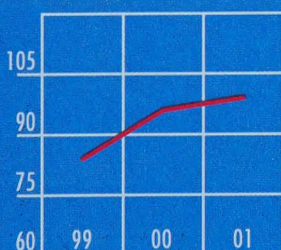
Seeking new opportunities

With the completion of the ICG integration, the Board of Directors of Superior reviewed the criteria and the fundamental approach for and encouraged management to pursue investment opportunities outside of the retail propane business. This will provide the next platform for growth in distributable cash flow and unitholder value over the long term. By making appropriate changes at the leadership team level, we began to dedicate full time resources to this important task and have embarked on initial search efforts. We see exciting opportunities and will assess prospects that fit the characteristics and risk profiles of our income fund structure. We take a value approach to every opportunity we investigate and focus on mature businesses with long life assets and predictable capital requirements and/or cash flows. It is important for any acquisition to be accretive to unitholder distributions within a one or two year time-frame and for the company to finance any acquisition prudently to maintain its investment grade credit rating. Our team has the discipline, skills and proven experience to add value for unitholders.

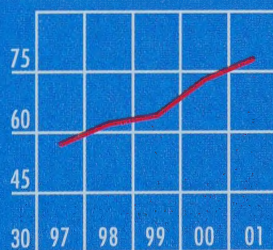
In summary, we are uniquely positioned to make the right moves at the right time and to capitalize on new acquisition opportunities to the benefit of all stakeholders. At Superior, we are proud of our accomplishments in 2001 and excited about our prospects for 2002 and beyond.

Grant Billing

Grant Billing
Executive Chairman, Superior Propane Inc.
February 20, 2002



Improved Operating
Cash Flow (E.B.I.T.D.A.)
(\$ Millions)



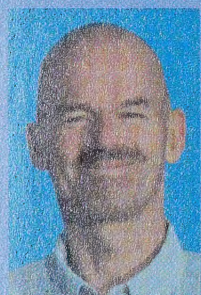
Increased Distributable Cash Flow
Ultimate Measure of Success
(\$ Millions)

FOR THE RECORD

MEASURING SUCCESS IN 2001

What management said, what management achieved, and where Superior is headed in 2002.

GEOFF MACKEY
President and C.E.O.



We achieved our overall financial and operational goals for 2001 despite very challenging economic and market conditions.

LOOKING AHEAD

Our overall goal for 2002 is to continue to improve the lives of our key stakeholders — our customers, our employees and our investors.

MARK SCHWEITZER
Executive Vice President, Corporate Development and C.F.O.



We reduced our debt and strengthened our balance sheet. This gives us flexibility to implement our 2002 business plan and to pursue other acquisition opportunities.

LOOKING AHEAD

Achieving continued growth over the long term by making acquisitions outside of the traditional propane business is one of our top priorities.

JOHN COOPER
Senior Vice President and C.O.O.



Our goal of integrating two successful businesses into one even greater company has been achieved on-time and on-budget.

LOOKING AHEAD

Our 2002 focus is to grow our customer base and to maximize efficiency opportunities, including business process improvements.

DAVE BALICKI
Vice President, Eastern Operations



Our customer retention program during the ICG integration was highly successful. In the fall, we began to focus on improving the efficiency of our routing and delivery processes.

LOOKING AHEAD

In 2002, we will strive to be more efficient and provide excellence in customer service to further enhance our propane delivery and service business.

GREG STEWART
Vice President, Business Services



We implemented new structures and processes in all of our service areas, including information, customer and billing services, to better support our business.

LOOKING AHEAD

In 2002, we will make further improvements to our information systems and optimize our two call centres.

GORDON WEICKER
Vice President, Western Operations



In 2001, we were successful in overcoming supply challenges without impacting customer service and jeopardizing safety.

LOOKING AHEAD

In 2002, we will further explore new market opportunities and grow our oilfield and other industrial services.

MAKING THE RIGHT MOVES

and maintaining Superior as Canada's number one supplier of propane and related services.

50

YEARS AGO

Superior was established in 1951 with three branch offices in Ontario.

25

YEARS AGO

Superior continues to grow and prosper and expand into Western Canada.

10

YEARS AGO

Norcen Energy further develops Superior's reputation and its well-respected brand name.

5

YEARS AGO

The Superior Propane Income Fund was created to allow unitholders to participate in the earnings of Superior.



Our historical numbers look good. But it's the future that counts. Competition is strong and we need to be more efficient and grow our business.

Q What kinds of services do you offer that complement the propane business?

A With a larger customer base, we continually add to our growing list of customer programs, such as fixed pricing and payment options and other value added services, including crane truck rentals, servicing oil field burners in Western Canada, offering air quality testing to forklift customers, and equipment service programs.

Q I understand that the merger with ICG Propane results in substantial cost savings for the benefit of the investor. How does this affect the customer or stimulate growth?

A We have been able to combine the best of Superior's and ICG's service offerings and deliver them to our larger combined customer base.

Q What is your market share and your competitive position?

A We estimate our share of Canadian retail propane sales to be 50–55% and we have approximately 200 competitors. The propane distribution business is a local relationship-based business in which propane competes for customers based on service, reputation and price. Propane represents less than 2% of Canada's energy pie and competes with alternate fuels, such as fuel oil, natural gas, electricity, wood and gasoline.

Q What sets you apart from your competitors?

A Our commitment to customers extends beyond propane deliveries. We focus on customer satisfaction. We provide our customers with pricing options and value-added services, such as equipment sales and rentals, installation, repair and maintenance service. We are a "one-stop" shopping option for propane energy.

Q Will the decline in auto propane volumes continue and how does this affect your business?

A Auto propane volumes continue to decline over the medium term. Propane is an effective substitute for gasoline and diesel fuel. It is energy efficient and produces less air pollutants. Some original equipment vehicle manufacturers have started to re-introduce propane vehicle offerings. Given that auto propane is our lowest margin business, declining volumes result in fairly minor reductions of gross profit.

Q Are there new applications for the use of propane?

A We follow with interest the newest developments in the distributed power markets, including emerging applications for fuel cells, microturbines and energy peak shaving applications. See also "New Developments" on page 9.

PURSUING OPERATIONAL

Superior is blending best practices and achieving better service, lower costs and greater operating efficiencies.

Building on our success of the past year, we will pursue operational excellence in 2002.

The primary goal for 2001 was to complete the physical integration of Superior's and ICG's operations into one leading provider of energy solutions. More than just a means of generating cost savings, the merger is key towards achieving continued profitability and growth in an increasingly competitive energy services market. Over the next twelve months, we will focus on ensuring that our new operating structure delivers maximum value.

Our core business consists of selling propane and

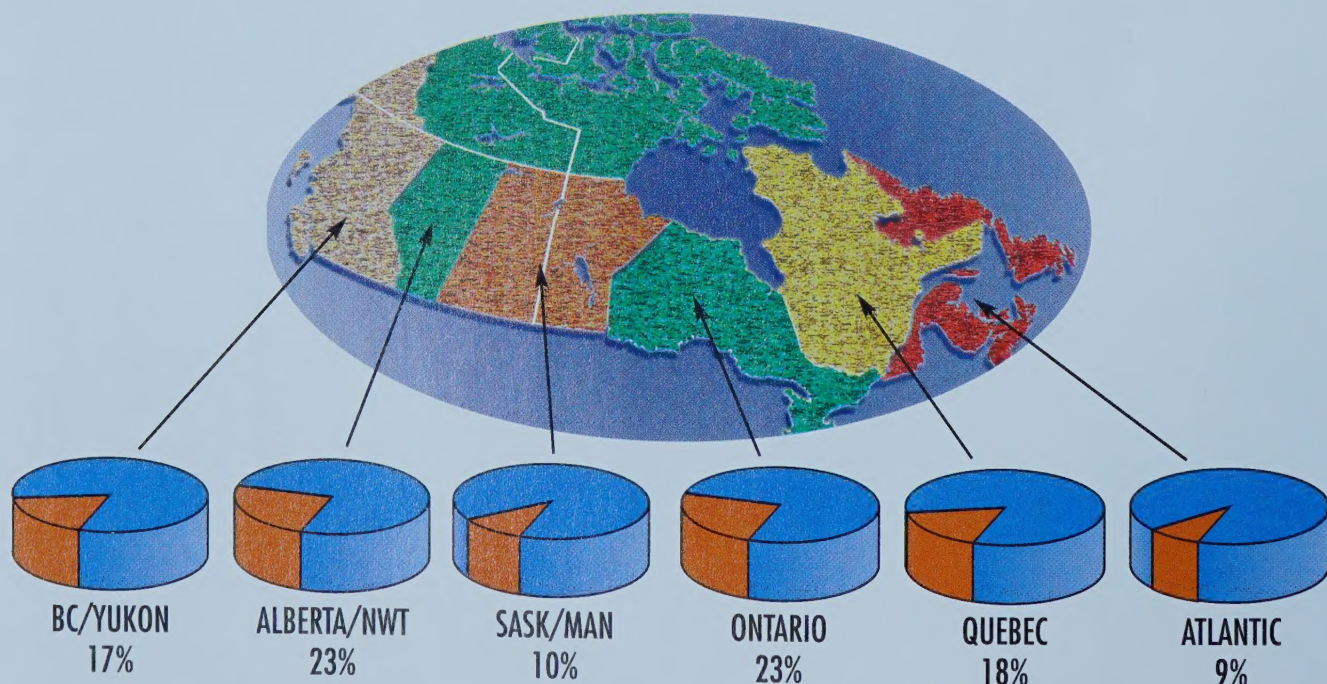
related products and services for use in commercial, industrial, residential, agricultural and automotive applications. In addition, Superior provides appliance sales, installations, inspections and service programs for both propane and natural gas equipment. Our commitment to customer service extends beyond deliveries; we focus on customer satisfaction and providing energy

solutions. Our expanded customer base enables us to better service customers' needs by offering more services and budgeting options.

The propane industry in Canada is mature, representing less than 2% of Canada's total energy consumption. Propane competes with other energy sources such as natural gas, fuel oil, electricity and wood for traditional uses and gasoline and other alternative fuels for transportation uses. Natural gas is usually the cheapest source of heating fuel in Canada, where available. However, propane has many advantages. It is a clean burning hydrocarbon that can be compressed at low pressures into a liquid form, and stored in pressurized tanks and cylinders for transportation by truck and by rail.

Superior's overall business structure contains a blend of best practices from both companies. The new business model is based on a local community presence through a network of 67 larger

2001 Gross Profit by Region



EXCELLENCE

market centres and 123 satellite and storage yards. The merger allowed the number of locations to be reduced from 240 to 190, resulting in substantial cost savings.

We serve almost 300,000 customers which are well diversified across all end-use applications and regional markets. While customers in the residential and commercial markets use propane primarily for space heating, water heating, refrigeration and cooking, industrial usage consists of forklift truck, agent, construction, welding, roofing and general industrial purposes. In the agricultural market, propane is primarily used for crop drying, irrigation, brooding, greenhouse operations and weed control. In the automotive market, propane is used as a transportation fuel, particularly for public and private fleets and other large volume users. For information on the decline in auto propane volumes, see page 7.

Propane distribution is a local relationship-based business. Each market centre has its unique business dynamics with diverse customer profiles and a different business mix, depending on regional markets and

NEW DEVELOPMENTS

Supenor has recently joined a strategic alliance with Global Thermolectic Inc. and Enbridge Inc. for the distribution in Canada of propane, competitive solid-crude fuel oil products for residential applications. This is an exciting opportunity, allowing Supenor to participate in the commercialization of Global's technology and to capture new growth in propane sales over the medium to long term. With our large and established volume base and infrastructure from coast-to-coast, particularly in remote locations, we are ideally suited to distribute these new products, once commercially available, and provide product installation and support.

economic conditions as well as local weather patterns.

Our market teams are fiscally and strategically responsible for managing their business and pursuing local opportunities. An enhanced call centre based business model with two new

call centres located in Laval, Quebec and Dartmouth, Nova Scotia was established to provide consistent customer service and support our sales and marketing programs.

Building on the successful integration last year, we will now focus on improving customer service processes, achieving operational excellence and growing our customer base. We will implement dynamic routing processes to maximize distribution efficiencies and minimize capital requirements over the longer term. Several new customer offerings will also be developed. Our Operational Excellence Team will provide coaching, support and guidance to our field employees to ensure that our customers receive superior products and services at competitive costs.

A detailed analysis of sales volumes, gross profit, and integration savings is provided on pages 10 to 15 of the Management's Discussion and Analysis. For more information on the propane business, including the supply and distribution chain, please see our 2000 Annual Report (pictured below).

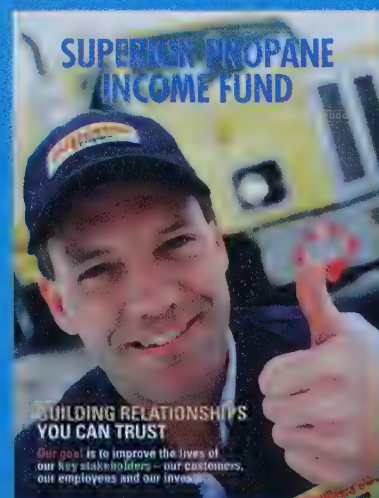
Building a Better Business

CONTROLLING COSTS

Effectively controlling our cost structure and utilizing assets are key components to maintaining success.

CAPTURING DEMAND

The fund in 2002 has implemented several initiatives to capture demand, including increasing advertising and sales efforts, as well as expanding our service network. These efforts are expected to drive revenue growth and improve operating performance.



SELECTED HISTORICAL INFORMATION

DISTRIBUTABLE CASH FLOW INCREASED BY 8% COMPARED TO THE PRIOR YEAR AND HAS INCREASED EVERY YEAR SINCE THE INCEPTION OF THE FUND IN 1996.

SPF.UN

(millions of dollars except litres of propane and margin per litre)

YEAR ENDED DECEMBER 31

01⁽¹⁾ 00⁽¹⁾ 99⁽¹⁾ 98⁽²⁾ 97⁽²⁾

(1) Includes ICG's operations on a combined basis.

(2) Presented as if the Fund held 100% ownership of Superior.

(3) Includes gross profit from other service revenues and third party transportation.

(4) E.B.I.T.D.A. earnings before interest, income tax, depreciation and amortization.

(5) Includes distributable cash flow of \$3.4 million from the December 7, 1998 acquisition of ICG, net of financing costs.

Litres of propane sold from continuing operations (millions of litres)	1,733	2,058	2,078	1,227	1,435
Propane sales margin (cents per litre)	15.0	13.2	12.5	14.5	12.6
Gross profit ⁽³⁾	300.7	321.7	306.5	203.5	209.5
Expenses	202.2	225.9	222.7	131.7	142.2
E.B.I.T.D.A. ⁽⁴⁾	98.5	95.8	83.8	71.8	67.3
Maintenance capital expenditures, net	4.1	7.1	7.5	9.6	7.7
Distributable cash flow	78.3	72.5	63.0	62.0 ⁽⁵⁾	57.4
Distributable cash flow per trust unit	\$1.71	\$1.58	\$1.38	\$1.34	\$1.24

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain information included herein is forward looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

The Fund holds a 100% interest in Superior consisting of investments in common share equity (the "Common Shares") and \$481.7 million 13% unsecured subordinated notes due October 1, 2026 (the "Shareholder Notes"). The distributable cash flow of the Fund is solely dependent on the results of Superior and is derived from dividends or return of capital on the Common Shares and interest earned on the Shareholder Notes.

Distributable Cash Flow

Distributable cash flow (cash generated from operations before changes in net working capital, less maintenance capital expenditures and distributions on the 8% Unsecured Subordinated Convertible Debentures maturing on July 31, 2007 (the "Debentures")) reached \$78.3 million in 2001 or

\$1.71 per average trust unit outstanding (\$1.65 per trust unit on a diluted basis), an 8% increase over distributable cash flow of \$1.58 per trust unit generated in 2000. Reduced expenditures on operations and maintenance capital arising from the integration of ICG contributed to the increased results. Net earnings before distributions to unitholders were \$37.4 million or \$0.67 per trust unit on a basic and diluted basis, compared to \$26.8 million or \$0.59 per trust unit in 2000. There were no materially dilutive instruments in 2000, as the Debentures were issued in January 2001. A more detailed discussion and analysis of the financial and operational results of Superior follows.

Cash Distributions

The Fund distributes quarterly to unitholders, interest earned on the Shareholder Notes and dividends or return of capital declared on the Common Shares, after distributions to debentureholders and provision for administrative expenses and reserves of the Fund. In 2001, in recognition of the continued improved operating results, the regular quarterly distribution was increased by 6% for the third quarter to \$0.35 per trust unit and an additional 14% to \$0.40 per trust

unit in the fourth quarter. Any remaining undistributed cash flow in respect of a fiscal year is distributed to the Fund in the following year as part of the Fund's April 15th distribution to unitholders. The cash distribution declared by the Fund for the first quarter of 2002 is \$32.1 million or \$0.70 per trust unit, of which \$0.30 per trust unit represents the remaining undistributed cash flow generated by Superior in 2001. The table below depicts the total distributions for 2001 income tax purposes. For 2002, the first \$1.17 per trust unit is expected to be distributed in the form of other income, approximately \$0.015 in the form of return of capital, with any remainder expected to be classified as a taxable dividend.

2001 CASH DISTRIBUTIONS FOR INCOME TAX PURPOSES

Record Date	Other Income	Return of Capital(1)(2)	Dividend	Total
Mar. 31, 2001	\$ 0.2271	\$ 0.0401	\$ 0.3228	\$ 0.59
Jun. 30, 2001	\$ 0.2596	\$ 0.0704	\$ —	\$ 0.33
Sept. 30, 2001	\$ 0.3038	\$ 0.0117	\$ 0.0345	\$ 0.35
Dec. 31, 2001	\$ 0.2949	\$ —	\$ 0.1051	\$ 0.40
2001 Total	\$ 1.0854	\$ 0.1222	\$ 0.4624	\$ 1.67

(1) Financing costs incurred by the Fund are deductible for tax purposes on a straight line basis over five years and may be designated as a "Return of Capital" for income tax purposes to unitholders. As at December 31, 2001, \$2.8 million of such issue costs were available for future designation as a "Return of Capital" of which \$0.7 million (\$0.015 per trust unit) is available for designation to unitholders in 2002.

(2) Additionally, distributions received from Superior with respect to the Fund's Common Share investment may be received in the form of "Return of Capital" for income tax purposes and may be distributed to unitholders as such. As at December 31, 2001, the Fund had no remaining tax basis in its Superior common share investment.

Integration of ICG

On December 7, 1998, Superior acquired from Petro-Canada, a 100% interest in ICG, a major retail propane distributor. Canada's Competition Bureau applied to dissolve the ICG merger pursuant to Canada's Competition Act on the grounds that the acquisition could lead to a substantial lessening of competition in Canada's retail propane markets. On December 11, 1998, the Competition Tribunal approved a consent interim order (the "Hold-Separate Order") which established certain operating parameters requiring Superior and ICG to continue operating as independent competitors pending the completion of the Tribunal's full review of the acquisition. On August 30, 2000, the Competition Tribunal dismissed the Competition Bureau's application to dissolve the merger. On September 8, 2000, the Competition Tribunal confirmed that the Hold-Separate Order was removed by operation of its August 30, 2000 decision. The Competition Bureau immediately appealed the Competition

Tribunal's August 30, 2000 decision to the Federal Court of Appeal. On April 4, 2001, the Federal Court of Appeal released its decision and found that the Tribunal should have considered a broader definition of merger "effects" and ordered the Tribunal to re-determine its decision on that basis. It also determined that the Competition Bureau has the legal burden of proving the extent of any relevant "effects". The Tribunal re-determination hearing took place in mid-October. As previously stated, if the Tribunal ultimately was to overturn its original decision, Superior may become subject to certain remedies, which Superior is unable to predict, and a separate remedy hearing would be required for that purpose. Possible remedies could include behavior remedies, asset divestitures, or the creation and disposition of a viable national competitor. Superior continues to strongly believe in the merits of its position and is looking forward to the decision from the Tribunal, which it expects to receive during the first half of 2002.

Until September 30, 2000, Superior accounted for its investment in ICG using the equity method, in recognition of the Hold-Separate Order requirement to operate ICG as a separate and competitive entity. Effective September 30, 2000, Superior began to consolidate the operating results and balance sheet of ICG in recognition of the removal of the Hold-Separate Order and the commencement of the integration of ICG and Superior. This change in accounting for ICG had no impact on the Fund's distributable cash flow or net earnings.

Upon removal of the Hold-Separate Order in September 2000, Superior and ICG commenced the merger of their operations. Superior had an existing operating presence in substantially all of the markets where ICG operated, providing similar services to similar customers. Accordingly, significant integration opportunities existed to reduce costs by removing duplicate distribution and business infrastructure and to provide enhanced customer service by leveraging service programs and processes across a combined customer base. The first phase of integration completed in 2001 targeted the integration of Superior and ICG's operational infrastructure and customer base and, by doing so, realized significant reductions in the combined business cost structure. The second phase planned for 2002 targets the optimization of customer delivery and service processes in the combined organization. Operating and capital cost savings from Phase 1 of the integration were forecast in 2000 to reach \$10 million in 2001 and contribute full year cost savings of \$20 million to \$25 million in 2002. Further optimization savings generated by Phase 2 of the integration were expected to deliver a further \$5 million of savings by 2003. Costs to implement the merger were forecast to be \$20 million.

A summary of key integration initiatives and accomplishments to date is provided below:

4th Quarter 2000

- Corporate and field leadership teams integrated.
- 16 person integration team formed with mandate to plan and implement integration.
- Corporate office functions integrated.

1st Quarter 2001

- Field market managers selected.
- Integrated operating locations identified.
- Sales force integrated.
- Detailed plan developed to transfer ICG customer information to Superior.

2nd and 3rd Quarters 2001

- ICG and Superior field operations integrated into 67 larger markets.
- Seven customer service call centres reduced to two.

4th Quarter 2001

- ICG business system decommissioning initiated.
- Integration team disbanded and absorbed back into operations.

Integration initiatives completed to date have resulted in a significant reduction in the combined company's infrastructure as follows:

Cost Driver	Prior to Integrating ICG	After Integrating ICG	Reduction	Integration Operating Cost Savings
Corporate offices	2	1	50%	6%
Business systems	2	1	50%	2%
Customer service call centres	7	2	71%	13%
Operating locations	240	190	21%	7%
Operating vehicles	1,165	891	24%	6%
Full-time employees	2,045	1,767	14%	66%
				100%

An emphasis on communication to both employees and customers throughout the integration process resulted in minimal customer service disruptions during a year of significant change at Superior. As part of the integration process, Superior took steps to shift customer service processes from local market operations to centralized call centres in order to provide improved and more efficient service processes to its customers while allowing Superior's local market operations to increase their focus on operating processes. Superior and ICG service programs and product offerings were reviewed, integrated, and introduced to the combined customer base.

Integration operating cost savings realized in 2001 reached an estimated \$16.3 million, exceeding targeted

savings of \$10.0 million by a wide margin as the integration was implemented faster than originally planned. The level of integration savings currently being realized is at or above the original projection of \$20 million to \$25 million.

Cumulative integration implementation costs since the beginning of Phase 1 of the integration were slightly higher than expected at \$22.6 million, of which \$3.1 million (2001: \$2.8 million) was expensed and \$19.5 million (2001: \$15.9 million) was charged to the provision for anticipated future merger costs on the balance sheet that was established when ICG was acquired in 1998. Proceeds of \$2.3 million from the sale of assets rendered surplus as a result of the merger, were used to partially fund integration implementation costs. Additional integration implementation costs of \$3.7 million are expected in 2002 and are anticipated to be funded from the sale of further surplus assets.

With the physical integration of Superior's and ICG's operations now complete, the focus in 2002 will be to further improve the efficiency of operating and customer service processes. Delivery routes and customer scheduling processes are targeted for review and optimization on a market by market basis in order to realize the additional efficiency potential provided by the increased customer densities resulting from the merger. Work will continue to streamline and expand the level of customer service support provided by Superior's call centres.

Operating Results

Superior's condensed operating results for 2001, 2000, and the last five year average are provided in the table on the following page. To improve comparability, this information includes the results of ICG presented on a combined basis for 2000 and the last five year average period. Selected historical information for the Fund for a five year period is provided on page 10 of this Annual Report.

Total gross profit of \$300.7 million in 2001 (17.4 cents/litre of propane sold) decreased from 2000 levels by \$21.0 million or 7%. Gross profit from propane sales was \$259.4 million in 2001, a decrease of \$11.3 million or 4% from 2000, as the impact of lower sales volumes outpaced the impact of improved average sales margins. Propane sales volumes were 1.73 billion litres in 2001, a decrease of 325 million litres or 16% from 2000 levels, resulting in a \$42.7 million reduction in gross profit.

Volume declines in 2001 from 2000 levels were as follows:

(millions of litres)	Volume Reduction from 2001
Auto propane sales	124
Industrial end-use applications	96
Heating (residential, commercial, agriculture)	105
	325

CONDENSED OPERATING RESULTS INCLUDING ICG'S OPERATIONS ON A COMBINED BASIS

(millions of dollars except per litre amounts)	2001		2000		Last 5 Year Average	
	\$	¢/litre	\$	¢/litre	\$	¢/litre
Gross profit						
Propane sales	259.4	15.0	270.7	13.2	275.7	13.1
Other services	41.3	2.4	51.0	2.4	45.1	2.1
Total gross profit	300.7	17.4	321.7	15.6	320.8	15.2
Less:						
Cash operating & administration costs ⁽¹⁾	(202.2)	(11.7)	(225.9)	(10.9)	(224.2)	(10.6)
Interest and cash income taxes	(9.3)	(0.5)	(16.2)	(0.8)	(8.8)	(0.4)
Cash generated from operations before changes in net working capital	89.2	5.2	79.6	3.9	87.8	4.2
Maintenance capital expenditures	(4.1)	(0.2)	(7.1)	(0.3)	(13.1)	(0.6)
Distributions to 8% debentureholders	(6.8)	(0.4)	—	—	(1.4)	(0.1)
Distributable cash flow	78.3	4.6	72.5	3.6	73.3	3.5
Propane volumes sold (millions of litres)	1,733		2,058		2,105	

(1) Includes management incentive fees of \$5.6 million (2000: \$3.7 million; last 5 year average: \$2.2 million).

Lower auto propane sales comprised 38% of the total decline in sales volumes for 2001, representing a 27% decline from the prior year auto propane sales volumes. These declines were attributable to the continued 15-20% estimated annual decline in the auto propane market, the loss of some low margin business to competitors and the impact on demand experienced during the first quarter caused by the high propane commodity prices relative to gasoline.

Lower industrial sales represented 96 million litres or 30% of the total decline in sales volumes from 2001, declining by 12% from the prior year industrial sales levels. Lower levels were attributable to warm weather and difficult economic conditions experienced by many customers as the Canadian economy contracted during the year, particularly in the forestry, mining, manufacturing and warehousing sectors.

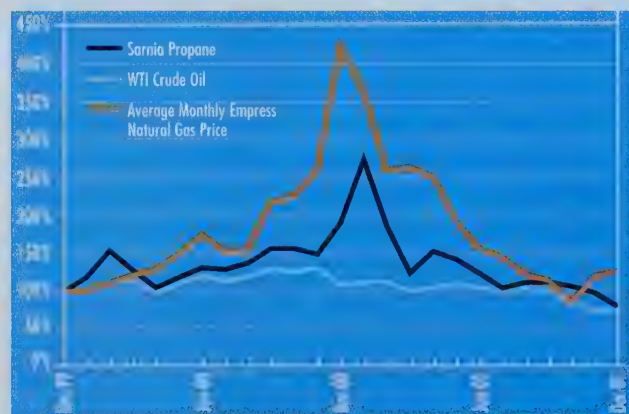
Heating demand represented 32% of the total decline in sales volumes from 2001, representing a 13% decline from the prior year heating application levels. High propane commodity prices experienced during the first quarter caused customers to reduce their propane consumption and/or increase their use of alternative fuels in order to manage their overall energy costs. Weather conditions were also 7% warmer on average across Canada than last year (11% warmer than the last 5 year average), reducing sales demand. Approximately 50% of Superior's sales volumes are heating related and 50% are related to economic activity levels.

After reaching highs of 49.5 cents per litre in Eastern Canada and 38.8 cents per litre in Western Canada in the first quarter, wholesale propane costs followed natural gas pricing and declined sharply in the second quarter and then remained at relatively modest levels for the balance of the year. Wholesale propane costs at the end of the year were less than one-third of the peak levels experienced during the first quarter of 2001. This has improved propane's competitiveness

with alternative fuels and reduced customers' energy costs which should provide the foundation for renewed sales demand going forward. See the chart below for the relative change in crude oil, natural gas and wholesale propane prices in the last 24 month period.

Propane sales margins averaged 15.0 cents per litre, an increase of 1.8 cents per litre or 14% over 2000 levels, contributing to a \$31.4 million increase in gross profit. Increased sales margins were a function of an improved business mix resulting from the decline in lower margin auto and industrial sales volumes in 2001 (0.7 cents per litre), as well as strong margin performance throughout 2001. Increased customer participation in Superior's fixed price programs contributed higher premium revenue and helped lead to an increase in the overall sales margins. Sales margins typically decline during periods of rising propane commodity prices due to delays in passing on prices to customers and conversely, sales margins typically increase when propane commodity prices decline.

RELATIVE CHANGE IN WTI CRUDE OIL AND NATURAL GAS PRICES VS. SARNIA WHOLESALE PROPANE PRICES



Gross profit generated by other services was \$41.3 million in 2001, a decrease of 19% from 2000 levels, as the high propane prices experienced earlier in the year coupled with soft economic conditions contributed to reduced equipment sales and installation revenue.

Compared to the 5 year average, gross profit generated in 2001 was within 6%, and in each of the last 5 years, has not deviated by more than 8% from the 5 year average, reflecting Superior's considerable operational and customer diversification. Superior's operational risks are well distributed across its 190 market and satellite locations, with the largest 10 markets representing approximately 41% of Superior's operating cash flow. Superior's customer base approaches 300,000 and is well diversified geographically and across end-use applications. Superior's largest customer contributed approximately 2% of gross profit in 2001.

SUPERIOR ANNUAL VOLUMES AND GROSS PROFITABILITY BY END-USE APPLICATION

Applications	Twelve Months Ended December 31			
	2001		2000	
	Volume	GP	Volume	GP
Residential	202.5	62.8	243.2	64.1
Commercial	403.4	81.9	452.2	77.1
Agricultural	121.7	12.2	137.3	15.2
Industrial	672.5	74.9	768.0	82.0
Automotive	332.8	27.6	457.2	32.3
Other services	—	41.3	—	51.0
	1,732.9	300.7	2,057.9	321.7
Average margin	15.0		13.2	

BY REGION

Regions	Twelve Months Ended December 31			
	2001		2000	
	Volume	GP	Volume	GP
Atlantic	114.1	28.9	127.1	27.0
Quebec	292.4	54.5	342.5	60.3
Ontario	414.6	68.6	498.4	91.0
Sask/Man	182.0	29.8	215.8	28.8
Alberta/NWT	415.2	67.9	522.3	68.5
BC/Yukon	314.6	51.0	351.8	46.1
	1,732.9	300.7	2,057.9	321.7
Average margin	15.0		13.2	

Volume: Volume of propane sold (millions of litres)

GP: Gross Profit (millions of dollars)

Average Margin: Average propane sale margin (cents per litre)

Cash operating and administrative costs were \$202.2 million in 2001, down \$23.7 million or 10% from the

prior year due to \$13.5 million of net integration savings (\$16.3 million before costs to implement the merger. See "Integration" discussion on page 11) and \$12.1 million attributable to lower variable delivery costs associated with the reduction in sales volumes in 2001. Superior is taking steps to further reduce its cost structure in response to the lower level of sales volumes currently experienced. Management incentive fees increased by \$1.9 million commensurate with the improved distributable cash flow performance in 2001 (See Note 14 to the Consolidated Financial Statements for details on the Management Agreement).

Interest costs reached \$8.5 million, a decrease of \$7.0 million from 2000. Average debt levels in 2001 declined by \$92.3 million from 2000 levels and contributed the majority of the decline in interest costs. Refer to the Liquidity and Capital Resources section for further discussion of debt levels. Lower floating interest rates experienced in 2001 also contributed to the reduction in interest expense from the prior year. Superior maintains a predominately floating interest rate profile. See Business Risks – Interest Rates. Cash taxes were \$0.8 million (2000: \$0.7 million) and were limited to federal large corporations tax and are expected to remain at similar levels in 2002.

Net maintenance capital expenditures at \$4.1 million were \$3.0 million below 2000 levels as excess equipment capacity realized through the integration reduced expenditure requirements in 2001. Net maintenance capital expenditures for 2002 are expected to remain at low levels as customer routing optimization initiatives are expected to further improve asset productivity.

Other capital expenditures of \$2.1 million during the year expanded Superior's business base and, accordingly, the investment cost has been funded by debt and excluded from distributable cash flow.

Distributions to debentureholders of \$6.8 million were recorded in the year. No distributions were recorded for the prior year as the Debentures were issued during the first quarter of 2001. See Liquidity and Capital Resources section for further details.

Quarterly financial and operating information for 2001 and 2000 are provided on the following page. To improve comparability, this information includes the results of ICG presented on a combined basis for the periods indicated. Approximately 75% of Superior's operating cash flow is generated in the first and fourth quarter each year as approximately 50% of Superior's sales volumes are to space heating end-use applications. Net working capital funding requirements follow a similar seasonal trend, peaking during the first quarter of each year, and declining to seasonal lows during the third quarter.

(millions of dollars except per trust unit amounts)	2001 Quarter				2000 Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Propane sales volumes (millions of litres)	578	354	334	467	645	413	409	591
Gross profit	101.4	60.0	57.1	82.2	99.1	65.0	60.8	96.8
Earnings (loss) before distributions to unitholders	18.4	1.6	(0.5)	17.9	15.8	(1.7)	(1.0)	13.7
Per basic and diluted trust unit	\$ 0.38	\$ (0.01)	\$ (0.05)	\$ 0.35	\$ 0.34	\$ (0.04)	\$ (0.02)	\$ 0.31
Distributable cash flow ⁽¹⁾	33.3	13.7	7.1	24.2	31.3	12.4	5.8	23.0
Per basic trust unit ⁽¹⁾	\$ 0.73	\$ 0.30	\$ 0.15	\$ 0.53	\$ 0.68	\$ 0.27	\$ 0.13	\$ 0.50
Per diluted trust unit ⁽¹⁾	\$ 0.68	\$ 0.30	\$ 0.15	\$ 0.52	\$ 0.68	\$ 0.27	\$ 0.13	\$ 0.50
Net working capital ⁽²⁾	129.9	22.7	31.7	43.2	91.5	74.9	79.2	114.5

(1) Distributable cash flow equals cash generated from operations before changes in working capital, less maintenance capital expenditures and distributions to debentureholders.

(2) Net working capital is comprised of accounts receivable and inventories, less accounts payable and accrued liabilities.

Liquidity and Capital Resources

The Fund's distributions to unitholders are sourced entirely from its investments in Superior. The Fund's investments in turn are financed by trust unit equity and by the \$100 million Debentures. The quoted market value of the Fund's trust unit capital and Debentures was \$777.1 million and \$106.3 million respectively, based on closing prices on December 31, 2001 on the Toronto Stock Exchange.

Superior's operating capital is financed substantially through equity and Shareholder Notes held by the Fund. Working capital is financed by the proceeds raised from the trade accounts receivable sales program and revolving term bank credit facilities. Maintenance capital requirements are funded from operating cash flow and are typically weighted towards the last half of the year as the truck fleet, tanks and cylinders are renewed in preparation for the winter heating season. Distributions to unitholders are funded by and to the extent of operating cash flow after provision for maintenance capital expenditures and distributions to debentureholders and other provisions as deemed appropriate. Capital required to finance an expansion of Superior's business is financed by either additional borrowings by Superior or it may require the Fund to use its commercial best efforts to raise the required financing. Through these funding policies, Superior maintains a strong financial position to facilitate the efficient execution of its business plans.

In January 2001, the Fund successfully accessed capital markets through the issue of the Debentures. Net proceeds of \$96.7 million from the issue were used principally by Superior to repay bank advances of \$95 million that had previously been borrowed to fund the ICG acquisition. The 8% fixed interest rate obligation was swapped into a floating rate obligation in order to maintain the floating interest rate profile of the bank advances that were repaid. The floating interest rate obligation was subsequently fixed for the August 2001 to January 2003 period, in order to capture the benefits of the current low interest rate environment, resulting in an

average effective fixed interest rate of 5.9% over that period. The Debentures are convertible, at the option of the holders, into Fund trust units at a price of \$16 per trust unit and have been classified as equity on the consolidated balance sheet because the Fund may elect to satisfy interest and principal obligations by the issuance of trust units. Because of the equity treatment, the distributions on the Debentures are charged directly to unitholders' equity, but are included as a deduction in the distributable cash flow calculation. (See Note 12 to the Consolidated Financial Statements.)

During the second quarter, Superior further expanded its funding sources by entering into an agreement to sell, with limited recourse, certain account receivables on a 30 day revolving basis to an entity owned by a Canadian Chartered Bank. The receivables are sold at a discount to face value based on prevailing money market rates. As at December 31, 2001, net proceeds of \$67.6 million had been raised from this program and were used to repay revolving term bank credits. (See Note 4 to the Consolidated Financial Statements.) The accounts receivable sales agreement requires Superior to maintain an investment grade credit rating (BBB minus or better) and meet certain historically based collection performance standards. Superior is currently rated BBB minus by Standard & Poors.

Superior has term credit facilities aggregating \$193.2 million with five banks. The credit facilities bear interest based on floating rates. The credit facilities contain terms which limit the incurrence of additional long-term indebtedness and payment of distributions to the Fund if total senior indebtedness (including amounts raised from the accounts receivable sales program) exceeds more than 3 times earnings before interest, taxes, depreciation and amortization. At December 31, 2001, this ratio was 1.7:1.0. As at December 31, 2001, \$101.0 million (2000: \$267.0 million) had been drawn on these facilities. Borrowing levels decreased by \$166.0 million compared to prior year end levels, due to the repayment of debt from proceeds raised from the Debenture and \$71.3 million reduction in net

working capital. The table below provides comparative details and explanation of principle changes in Superior's net working capital components:

CHANGES IN NET WORKING CAPITAL COMPONENTS

(in millions)	2001	2000	Increase/ (Decrease)
Accounts Receivable	\$ 55.2	\$ 196.1	\$ (140.9)
• Sale of \$67.6 million of trade accounts receivable • Lower sales volumes and propane commodity prices in 2001			
Inventory	49.3	55.9	(6.6)
• Lower propane commodity prices in 2001			
Current Assets	104.5	252.0	(147.5)
Accounts payable and accrued liabilities	(61.3)	(137.5)	76.2
• Reduction in ICG Integration provision due to incurrence of \$15.9 million of expenditures in 2001 • Lower sales volumes and propane commodity prices in 2001			
Net Working Capital	\$ 43.2	\$ 114.5	\$ (71.3)

Business Risks

Propane Demand, Supply and Pricing: Propane represents less than 2% of the overall Canadian energy market and is used in a wide range of applications, including residential, commercial, industrial, agricultural and automotive uses. Demand for traditional propane end-use applications is increasing marginally, while demand for automotive uses is presently declining at a rate of approximately 15–20% per year. Based on the most recently available industry data, it is estimated that on an annual basis, approximately 12.7 billion litres of propane are produced in Canada of which about 4.3 billion litres is consumed domestically. The remainder is exported, mainly to the U.S. The retail propane business is a “margin-based” business where the level of profitability is largely dependent on the difference between retail sales prices and wholesale product cost. Changes in propane supply costs are normally passed through to customers but timing lags may result in both positive and negative fluctuations of gross margins.

Competition: Propane distribution is a local, relationship-based business, in which propane competes for market share based on price and level of service. There are close to 200 propane retailers in Canada. In addition, propane is subject to vigorous competition from other sources of energy, including natural gas, fuel oil, electricity, wood, gasoline, diesel and other fuels. Propane commodity prices are affected by crude oil and natural gas commodity prices. Natural gas prices, after peaking at historically high levels in the first quarter, declined sharply in the second

quarter and then remained at modest levels throughout the balance of the year. In turn, propane commodity prices have followed similar trends. As a result, the competitiveness of propane relative to other energy sources has returned to a more historical relationship. The increased propane prices experienced in the first quarter provided a greater incentive for customers to reduce their overall energy consumption throughout 2001. The automotive fuel market is currently declining at an estimated annual rate of 15–20% due to the development of more fuel-efficient and complicated engines and as the cost of converting engines to propane consumption has increased and the savings per kilometer driven has decreased. Reversal of this market trend will require increased support of governments and the original equipment vehicle manufacturers. The introduction of natural gas in Nova Scotia and New Brunswick commenced in late 2000 and has begun to displace propane in these areas as natural gas infrastructure becomes accessible.

Seasonality and Weather Conditions: Historically, overall propane demand from non-automotive end-use applications has been stable. However, weather conditions and general economic conditions do affect propane market volumes. Weather influences the demand for propane primarily for heating uses and also for agricultural purposes, such as crop drying. Approximately three-quarters of annual cash flow is typically generated in the October through March winter heating season. Superior accumulates propane inventory during the summer months for delivery to customers during the winter heating season. The cost of inventory may be higher or lower than market prices for propane at the time of sale and can impact profitability.

Interest Rates: Superior maintains primarily a floating interest rate exposure through a combination of floating interest rate borrowings and a hedging program. Approximately 50% of Superior's demand levels are affected by general economic trends. Generally speaking, when the economy is strong, interest rates increase as does sales demand from Superior's customers, thereby increasing Superior's ability to pay higher interest costs and vice versa. In this way, a common relationship between economic activity levels, interest rates and Superior's ability to pay higher or lower rates are generally aligned providing Superior with a natural business hedge against interest rates. At December 31, 2001, Superior had entered into a fixed interest rate exposure on \$100 million principal amount of debt through to January 2003 in order to capture the benefits of the low interest rate environment that existed in 2001. (See Note 12 to the Consolidated Financial Statements.)

Fixed Price Offerings: Superior offers its customers various fixed price propane programs. In order to mitigate the price risk from offering these services to our customers, Superior uses its physical inventory position, supplemented by forward commodity transactions with third parties that have terms and conditions that are substantially the same as

its customers' contracts. Gains and losses from the customer contract and the mitigating transaction are recorded simultaneously into income at the time of settlement. At December 31, 2001, Superior had fixed price commitments to customers and similar inventory/forward purchase contracts of approximately 132 million litres (2000: 82 million litres) or 8% of Superior's 2001 sales volumes, that extend out to December 2002.

Employee and Labour Relations: As of December 31, 2001, the Company has 1,767 regular and 222 part-time employees. Approximately 375 of its employees are unionized through provincial or regional certifications in each province except Alberta, Saskatchewan, Atlantic Canada and the Northwest Territories. There are 8 union agreements, with expiry dates ranging from December 30, 2000 to March 31, 2003. Collective bargaining agreements are renegotiated in the normal course of business and are not expected to materially affect Superior's business.

Environmental Risk: The storage and transfer of propane has limited impact on the environment as there is no impact to soil or water given that a release of propane will disperse into the atmosphere. Slight quantities of propane may be released during transfer operations. Superior has established a program directed at environmental and health and safety protection. This program consists of an environmental policy, codes of practice, periodic self-audits, employee training, quarterly and annual reporting and emergency prevention and response.

Competition Act Proceedings: The August 2000 decision of the Competition Tribunal to permit Superior's merger with ICG is currently the subject of a re-determination hearing. The Federal Court of Appeal ordered the Competition Tribunal to re-determine its previous decision on the basis of a broader definition of "merger effects". As previously stated, if the Tribunal ultimately was to overturn its original decision, Superior may become subject to certain remedies, which it is unable to predict. In addition, a separate remedy hearing would be required to determine the appropriate remedy. Possible remedies could include behavior remedies, asset divestitures, or the creation and disposition of a viable national competitor.

New Accounting Policies for 2002

The Accounting Standards Board of the CICA (the "ASB") has approved Handbook section 3062 "Goodwill and Other Intangible Assets" and 3870 "Stock-Based

Compensation and Other Stock-Based Payments", effective January 1, 2002. Section 3062 establishes new standards for goodwill acquired in a business combination and eliminates amortization of goodwill and instead sets forth methods to periodically evaluate goodwill for impairment. For the year ended December 31, 2001, the Fund recorded goodwill amortization of \$24.5 million that will no longer be recorded in 2002 and beyond. In addition, the Fund will review the valuation of goodwill at January 1, 2002 under the transitional rules. Management of the Fund does not believe that this review will result in a material adjustment to the Fund's financial statements. Section 3870 establishes new standards for stock-based compensation, including the accounting related to the Fund's Trust Unit Incentive Plan. Upon adoption, the Fund will take a charge to deficit of approximately \$0.7 million. Subsequent charges to earnings will depend on the Fund's unit price, the number of options outstanding, and their vesting period. Distributable cash flow will be unaffected by these changes in accounting.

Outlook

With the completion of the integration of ICG and Superior in the third quarter, a full year benefit of merger savings are anticipated in 2002, contributing to additional operating and maintenance capital expenditure savings. Propane sales volumes are expected to be impacted by generally soft economic conditions, the continued decline of the auto propane market and unseasonably warm weather experienced early in 2002. Average sales margins are expected to benefit from an improved business mix, as the proportion of low margin auto propane sales continues to decline.

Over the long term, we expect to pursue our business strategy of growing the Fund's asset base by acquiring other businesses that have attributes suitable for an income fund structure. With the integration of the ICG business completed, Superior is considering investment opportunities outside of the propane business to provide the next platform of unitholder distribution growth. Superior will review opportunities to acquire businesses that have risk profiles suitable for an income fund structure and would finance any acquisitions in a manner that maintains its existing financial strength.

Sensitivity Analysis

The Fund's estimated cash flow sensitivity to changes in average sales margins and volumes are provided in the table below:

	Change	Change	Impact on Distributable Cash Flow	Per Trust Unit
Change in sales margin ⁽¹⁾	\$ 0.005/litre	3%	\$ 6.5 million	\$ 0.14
Change in sales volume ⁽¹⁾	100 million litres	6%	\$ 9.0 million	\$ 0.20

(1) After giving effect to management incentive fees.

TRUSTEES' REPORT

The consolidated financial statements are the responsibility of the Trustees of the Superior Propane Income Fund (the "Fund"). They have been prepared in accordance with generally accepted accounting principles, using the Trustees' best estimates and judgements, where appropriate.

The Trustees are responsible for the reliability and integrity of the financial statements, the notes to the financial statements and other financial information contained in this report. In preparation of these financial statements, estimates are sometimes necessary as a precise determination of certain assets and liabilities is dependent on future events. The Trustees believe such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

The Trustees are also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information. The Trustees are responsible for ensuring that the responsibilities for financial reporting and internal control are fulfilled.

Deloitte & Touche LLP, the independent auditors, have audited the Fund's consolidated financial statements in accordance with generally accepted auditing standards and have provided an independent professional opinion thereon.

February 15, 2002



Chairman
Superior Propane Income Fund

AUDITORS' REPORT

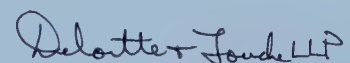
TO THE UNITHOLDERS OF SUPERIOR PROPANE INCOME FUND:

We have audited the consolidated balance sheets of Superior Propane Income Fund as at December 31, 2001 and 2000 and the consolidated statements of earnings and deficit and cash flows and distributable cash flows for the years then ended. These financial statements are the responsibility of the Trustees of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 15, 2002



Chartered Accountants

CONSOLIDATED BALANCE SHEETS

<i>December 31, 2001 and 2000 (in thousands of dollars)</i>	2001	2000
ASSETS		
CURRENT ASSETS		
Accounts receivable (Note 4)	55,182	196,128
Inventories (Note 5)	49,273	55,869
	104,455	251,997
Capital assets and goodwill (Note 6)	550,436	595,656
	654,891	847,653
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank advances (Note 7)	—	95,000
Current portion of revolving term bank credits and term loans (Note 8)	65,000	5,845
Accounts payable and accrued liabilities	61,287	137,480
Distribution payable to unitholders	18,349	15,117
	144,636	253,442
Revolving term bank credits (Note 8)	35,986	166,137
Future employee benefits (Note 9)	8,447	8,799
Future income taxes (Note 10)	17,159	21,579
Unitholders' equity (Notes 11 and 12)	448,663	397,696
	654,891	847,653

APPROVED BY THE TRUSTEES



Trustee



Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

<i>Years Ended December 31, 2001 and 2000 (in thousands of dollars)</i>	2001	2000
Revenues	787,496	669,555
Cost of products sold	486,822	426,090
Gross profit	300,674	243,465
Expenses		
Operating and administrative (Note 14)	202,181	168,844
Depreciation and amortization	56,298	47,852
Interest (Note 8)	8,459	15,451
Income taxes of Superior (Note 10)	(3,654)	(9,965)
	263,284	222,182
EARNINGS FROM OPERATIONS	37,390	21,283
Earnings from investment in ICG (Note 3)	—	5,555
NET EARNINGS BEFORE DISTRIBUTIONS TO UNITHOLDERS	37,390	26,838
Distributions to unitholders	(76,580)	(63,201)
	(39,190)	(36,363)
DEFICIT, BEGINNING OF YEAR	(149,434)	(103,268)
Adjustment for a retroactive change in accounting policy (Note 9)	—	(3,890)
Adjustment for a retroactive change in accounting policy (Note 10)	—	(5,913)
Distributions to debentureholders (Note 12)	(6,843)	—
Accretion of debentures charged to deficit (Note 12)	(428)	—
DEFICIT, END OF YEAR	(195,895)	(149,434)
Net earnings per trust unit, before distributions to unitholders, net of distributions to debentureholders, basic and diluted (Note 11(i))	\$ 0.67	\$ 0.59

CONSOLIDATED STATEMENTS OF CASH FLOWS AND DISTRIBUTABLE CASH FLOWS

<i>Years Ended December 31, 2001 and 2000 (in thousands of dollars)</i>	2001	2000
OPERATING ACTIVITIES		
Net earnings before distributions to unitholders	37,390	26,838
Items not affecting cash:		
Equity earnings from ICG (net of \$nil of distributions accrued and received, 2000: \$20,543)	—	14,993
Depreciation and amortization	56,298	47,852
Future income tax recoveries of Superior	(4,420)	(10,400)
Cash generated from operations before changes in working capital	89,268	79,283
Decrease (increase) in non-cash operating working capital items	2,079	(22,978)
NET CASH AVAILABLE	91,347	56,305
Investing Activities		
Maintenance capital expenditures, net	(4,148)	(6,784)
Other capital expenditures, net	(2,058)	—
Cash included on consolidation of ICG (Note 3)	—	3,223
	(6,206)	(3,561)
Financing Activities		
Net proceeds from sale of accounts receivable (Note 4)	67,578	—
Net proceeds from issue of debentures (Note 12)	96,700	—
Bank advances (Note 7)	(95,000)	—
Revolving term bank credits and term loans	(70,996)	10,457
Distributions to debentureholders	(6,843)	—
Distributions to unitholders	(76,580)	(63,201)
	(85,141)	(52,744)
CHANGE IN CASH	—	—
CASH AT BEGINNING OF YEAR	—	—
CASH AT END OF YEAR	—	—

STATEMENT OF DISTRIBUTABLE CASH FLOWS

Cash generated from operations before changes in working capital	89,268	79,283
Less maintenance capital expenditures, net	(4,148)	(6,784)
Less distributions to debentureholders	(6,843)	—
DISTRIBUTABLE CASH FLOW	78,277	72,499
Distributable cash flow per trust unit, basic (Note 11(i))	\$ 1.71	\$ 1.58
Distributable cash flow per trust unit, diluted (Note 11(i))	\$ 1.65	\$ 1.58

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Superior Propane Income Fund (the "Fund") is a limited purpose, unincorporated trust created pursuant to a declaration of trust made as of August 2, 1996 and amended October 8, 1996 (the "Declaration of Trust") and is governed by the laws of the Province of Alberta. The Fund holds all of the outstanding securities of Superior Propane Inc. ("Superior", or the "Company"). The Fund's investments in Superior are comprised of the Class A and B Common Shares ("Common Shares") and \$481.7 million 13% unsecured subordinated notes due October 1, 2026 (the "Shareholder Notes"). The Fund's investments in Superior are financed by trust unit equity ("Trust Units") and \$100 million, 8% convertible unsecured subordinated debentures due July 31, 2007 (the "Debentures"). The Fund distributes to holders of Trust Units of the Fund ("unitholders"), dividends and/or returns of capital received from its Common Share investment and interest received from its Shareholder Note investment, after payment of Fund expenses and distributions to debentureholders of the Fund ("debentureholders").

On October 8, 1996, the Fund entered into certain agreements including a unanimous shareholders' agreement, a management agreement and an administration agreement (the "Unanimous Shareholders' Agreement", the "Management Agreement" and the "Administration Agreement"). The Unanimous Shareholders' Agreement provides for various matters relating to Superior including the manager's entitlement to nominate a majority of the members of the Superior Board of Directors so long as the manager holds not less than 10% of the outstanding trust units of the Fund. In addition, the Fund may not sell, assign, pledge or otherwise encumber any of the Shareholder Notes or Common Shares without the prior approval of Superior's Board of Directors. See also Note 14 - Related Party Transactions and Agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared according to Canadian generally accepted accounting principles applied on a consistent basis and include the accounts of the Fund and its wholly owned subsidiary, Superior. All significant transactions and balances (including the Shareholder Notes) between the Fund and Superior have been eliminated on consolidation. Superior's wholly owned subsidiary, ICG Propane Inc. ("ICG"), over which its operating control was limited by a Hold-Separate Order of Canada's Competition Tribunal, was accounted for using the equity method from its acquisition on December 7, 1998 until September 30, 2000. ICG was legally amalgamated with Superior effective September 30, 2000. In September 2000, the Hold-Separate Order was removed and the integration of Superior's and ICG's operations was commenced. In recognition of Superior's assumption of operating control of ICG, Superior began to consolidate ICG's balance sheet and operating results effective September 30, 2000. See Note 3 for details.

Change in Accounting Standard

Effective January 1, 2001, the Fund retroactively adopted the new standards for the presentation and disclosure of earnings and distributable cash per trust unit as recommended by the Canadian Institute of Chartered Accountants ("CICA"). The new standard relates to the computation, presentation and disclosure of earnings per share and cash flow from operations per share. Under the new standard, the treasury stock method is used to determine the dilutive effect of stock options and warrants. This change had no material impact on current or prior year calculations.

Accounts Receivable Sales Program

Superior has a revolving trade accounts receivable sales program under which all transactions are accounted for as sales in accordance with the CICA accounting guideline "Transfer of Receivables".

Financial Instruments

The carrying value of accounts receivable, including the allowance for doubtful accounts, approximates the fair value. The collection risk associated with accounts receivable that are sold pursuant to Superior's accounts receivable sales program (see Note 4) is provided for as part of Superior's overall allowance for doubtful accounts. Superior has a large number of diverse customers, which minimizes accounts receivable credit risk.

The carrying value of accounts payable, accrued liabilities and accrued interest approximates the fair value of these financial instruments due to the short term maturity of these instruments. The carrying values of bank advances and revolving term bank credits approximate their fair values due to the floating interest rate nature and short repayment term of these debt securities.

Superior manages interest rate risk through a combination of floating interest rates and a hedging program.

Inventories

Inventories of propane are valued at the lower of cost and market determined on the basis of estimated net realizable value. Appliances, materials, supplies and other inventories are stated at the lower of cost and market determined on the basis of estimated replacement cost or net realizable value, as appropriate. Superior has an inventory of appliances rented to customers under rental contracts. The book value of this inventory is carried in the inventory accounts at cost less accumulated amortization. Amortization is provided on a straight-line basis, generally over a period of five years.

Capital Assets

Capital assets are recorded at cost and depreciated over their respective estimated useful lives using the straight-line method except for loaned propane dispensers which use the declining balance method at a rate of 10%. The estimated useful lives of major classes of property, plant and equipment are:

Buildings	20 years
Tanks and cylinders	20 years
Truck tank bodies	10 years
Truck chassis	7 years
Computer equipment and furniture	7 to 10 years

Goodwill

The excess of the Fund's cost of investment in Superior's Common Shares and Shareholder Notes over the corresponding interest in Superior's current assets and property, plant and equipment less current liabilities, long-term debt and deferred income taxes on the dates of acquisition has been attributed to goodwill and is amortized on a straight-line basis over twenty years. The net carrying value of goodwill would be written down if the value were permanently impaired. The Fund assesses impairment by determining whether the unamortized goodwill balance can be recovered through undiscounted operating cash flows of the acquired operation over its remaining life.

Future Employee Benefits

Superior has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees, and accrues its obligations under the plans and the related costs, net of plan assets.

Income Taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the unitholders. During 2001 and 2000, the Fund has allocated all of its taxable income to the unitholders, and accordingly, no provision for income taxes is required at the Fund level. The Fund's subsidiary, Superior, is subject to corporate income taxes and follows the liability method of accounting for income taxes.

Distributions to Unitholders

Distributions to unitholders are made on a quarterly basis. The amount of cash to be distributed annually will be equal to Superior's cash flow after provision for maintenance capital expenditures, distributions to debentureholders and other reserves as may be considered necessary, less expenses of the Fund. Cash is received quarterly by the Fund from Superior in the form of interest income earned on the Shareholder Notes and dividends or returns of capital received on the Common Share investment in Superior. Any remaining distributable cash flow in respect of the fiscal year is distributed in the first quarter of the subsequent year.

Trust Unit Options

The Fund has a Trust Unit Incentive Plan which is described in Note 13. No compensation expense is recognized for this plan when Trust Options are issued to employees.

Segmented Reporting

Superior operates in only one business segment as its operating activities are related to the distribution and retail sale of propane, propane consuming equipment and related services in Canada.

3. Acquisition of ICG

On December 7, 1998, Superior acquired from Petro-Canada, a 100% interest in ICG, a major retail propane distributor. On December 8, 1998, Canada's Competition Bureau applied to dissolve the ICG merger pursuant to Canada's Competition Act on the grounds that the acquisition could lead to a substantial lessening of competition in Canada's retail propane markets. On December 11, 1998, the Competition Tribunal approved a consent interim order (the "Hold-Separate Order") which established certain operating parameters requiring Superior and ICG to continue operating as independent competitors pending the completion of the Tribunal's full review of the acquisition. On August 30, 2000, the Competition Tribunal dismissed the Competition Bureau's application to dissolve the merger. On September 8, 2000, the Competition Tribunal confirmed that the Hold-Separate Order was removed by operation of its August 30, 2000 decision. The Competition Bureau immediately appealed the Competition Tribunal's August 30, 2000 decision to the Federal Court of Appeal. On April 4, 2001, the Federal Court of Appeal released its decision and found that the Tribunal should have considered a broader definition of merger "effects" and ordered the Tribunal to re-determine its decision on that basis. It also determined that the Competition Bureau has the legal burden of proving the extent of any relevant "effects". The Tribunal re-determination hearing took place in mid-October. As previously stated, if the Tribunal ultimately was to overturn its original decision, Superior may become subject to certain remedies, which Superior is unable to predict, and a separate remedy hearing would be required for that purpose. Possible remedies could include behavior remedies, asset divestitures, or the creation and disposition of a viable national competitor. Superior continues to strongly believe in the merits of its position and is looking forward to the decision from the Tribunal which it expects to receive during the first half of 2002.

Effective September 30, 2000, Superior began to consolidate ICG's balance sheet and operating results for the reasons described above and in Note 2 – Basis of Presentation. This change in accounting for ICG had no impact on the Fund's earnings and distributable cash flow. The consolidation resulted in the investment in ICG being replaced with the following net assets:

Cash	\$ 3,223
Net working capital	20,654
Capital assets and goodwill	133,294
	\$ 157,171

ICG Investment Carrying Cost		
	2001	2000
Opening balance, January 1	\$ –	\$ 172,164
Distributions accrued and received net of equity pick up of \$nil (2000: \$20,543)	–	(14,993)
Consolidation of ICG investment	–	(157,171)
ICG investment carrying cost, December 31	\$ –	\$ –

As at December 31, 2001, Accounts Payable and Accrued Liabilities included an amount of \$1.2 million (2000: \$17.1 million) representing the remaining estimated cost to integrate ICG's operations with Superior. During 2001, \$15.9 million (2000: \$4.9 million) of integration expenditures were incurred and applied against the ICG integration provision, of which

\$2.2 million (2000: \$4.7 million) were incurred with respect to the Competition Bureau's application to dissolve the merger and \$13.7 million (2000: \$0.2 million) of costs were incurred in connection with the integration of ICG's operations.

Superior has determined its purchase price discrepancy representing the excess of the total acquisition cost over the related net book value of ICG at the date of acquisition to be \$103.2 million. Superior's purchase price discrepancy which has been ascribed to goodwill, is being amortized on a straight-line basis over 20 years. At December 31, 2001, the remaining unamortized goodwill was \$73.9 million (2000: \$76.9 million).

4. Accounts Receivable

On June 29, 2001, Superior entered into an agreement to sell, with limited recourse, certain trade accounts receivable on a revolving basis to an entity owned by a Canadian chartered bank, and has accounted for the sale in accordance with the new guidelines of the CICA relating to transfers of receivables. The accounts receivable are sold at a discount to face value based on prevailing money market rates. Superior has retained the servicing responsibility for the accounts receivable sold and has therefore recognized a servicing liability. The level of accounts receivable sold under the program fluctuates seasonally with the level of accounts receivable. At December 31, 2001 net proceeds of \$67.6 million had been received, resulting in a year to date loss on sale of \$0.3 million which has been included in depreciation and amortization expense on the Statement of Earnings and Deficit. Proceeds received from the sale of receivables were used to repay Revolving Term Bank Credits. The fair value of the retained interest arising from the sale at December 31, 2001 was \$9.9 million and was estimated by discounting expected cash flows at prevailing money market rates.

From June 29, 2001 to December 31, 2001 the cash flows related to this sales program were as follows:

Net proceeds from the initial accounts receivable sale	\$ 69,685
Proceeds from collections re-invested in revolving period sales	295,164
Remittances of amounts collected on sales	(297,271)
Net proceeds from accounts receivable sales	\$ 67,578

5. Inventories

	2001	2000
Propane	\$ 31,849	\$ 33,766
Appliances	5,691	6,441
Materials, supplies and other	3,534	6,742
Rental appliances	8,199	8,920
	\$ 49,273	\$ 55,869

6. Capital Assets and Goodwill

	2001			2000		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 25,421	\$ —	\$ 25,421	\$ 25,461	\$ —	\$ 25,461
Buildings	27,576	13,169	14,407	27,165	11,815	15,350
Propane marketing equipment	402,626	246,412	156,214	393,189	214,472	178,717
Property, plant and equipment	\$ 455,623	\$ 259,581	\$ 196,042	\$ 445,815	\$ 226,287	\$ 219,528
Goodwill	446,493	92,099	354,394	445,090	68,962	376,128
Total capital assets and goodwill	\$ 902,116	\$ 351,680	\$ 550,436	\$ 890,905	\$ 295,249	\$ 595,656

7. Bank Advances

As at December 31, 2000, Superior had borrowed on an unsecured, non-revolving basis \$95.0 million for the purpose of funding the ICG acquisition. On March 7, 2001 this loan was repaid with proceeds from the issue of \$100 million of Debentures (Note 12).

8. Revolving Term Bank Credits and Term Loans

Revolving term bank credits of \$101.0 million (2000: \$172.0 million) are unsecured and bear interest based on floating rates. Repayment requirements are as follows:

(in millions)	
Current portion	\$ 65.0
Due in 2003	28.0
Due in 2004	8.0
Total	\$ 101.0

Interest paid on bank advances and revolving term bank credits during the year amounted to \$8.5 million (2000: \$15.5 million) of which \$7.9 million (2000: \$9.5 million) relates to long-term debt, net of payments received of \$1.3 million (2000: nil) under Debenture interest rate swap agreements (Note 12).

9. Future Employee Benefits

Effective January 1, 2000, the Company adopted the new recommendations of the CICA with respect to accounting for employee benefit plans. The new method was retroactively applied without restatement of the 1999 financial statements. The impact of these recommendations on the opening 2000 financial statements was to increase the liability for future employee benefits by \$3.9 million and increase the retained deficit by \$3.9 million. The impact of these recommendations on the 2000 financial results was to reduce operating and administrative expense by \$0.7 million. The following disclosures reflect the new recommendations of the CICA for employee benefit plans.

Superior has defined benefit and defined contribution pension plans covering most employees. The benefits provided under the defined benefit pension plan are based on the employees' years of service and on the highest average earnings for a specified number of consecutive years. New non-unionized employees may only participate in the defined contribution pension plan.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Accrued benefit obligation, beginning of year	\$ 55,778	\$ 29,952	\$ 8,799	\$ 7,330
ICG obligation assumed (Note 3)	—	25,018	—	2,126
ICG obligation transferred to defined contribution plan	(1,446)	—	—	—
Current service cost	738	399	244	36
Interest cost	3,489	2,433	—	—
Employee contributions	14	15	—	—
Benefits paid	(5,728)	(3,478)	(596)	(693)
Actuarial loss	325	1,439	—	—
Accrued benefit obligation, end of year	\$ 53,170	\$ 55,778	\$ 8,447	\$ 8,799

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Fair value of plan assets, beginning of year	\$ 93,025	\$ 58,409	—	—
ICG assets acquired (Note 3)	—	34,025	—	—
Actual return on plan assets	(2,818)	6,201	—	—
Transfers to defined contribution plan	(3,842)	(2,165)	—	—
Employee contributions	43	33	—	—
Benefits paid	(5,728)	(3,478)	—	—
Fair value of plan assets, end of year	\$ 80,680	\$ 93,025	—	—
Funded status — plan surplus (deficit)	\$ 27,510	\$ 37,247	\$ (8,447)	\$ (8,799)
Unamortized net actuarial loss (gain)	7,513	(2,290)	—	—
Unamortized transitional asset	(1,705)	(2,046)	—	—
Accrued net benefit asset in excess of accrued benefit obligation ⁽¹⁾	\$ 33,318	\$ 32,911	—	—
Accrued net benefit balance sheet obligation	—	—	\$ (8,447)	\$ (8,799)

(1) None of which is recorded on the balance sheet

The accrued benefit obligation of \$8.4 million (2000: \$8.8 million) and an expense of \$244,000 (2000: \$36,000) related to other benefit plans has been recorded in the financial statements.

The fair value of the defined benefit plan assets in excess of the accrued benefit balance sheet obligation at December 31, 2001 is \$33.3 million (2000: \$32.9 million). The defined contribution pension plan is a fully funded plan by its nature. Accordingly, defined contribution pension plan assets equal the related obligation.

The total cost of the Company's defined contribution plans in 2001 was \$2.4 million (2000: \$2.2 million) and was fully funded and offset by the return earned on the unrecognized defined benefit plan's net benefit asset. The Company expects to continue to fund its required annual obligation under the defined contribution pension plan by returns earned on the defined benefit plan's net benefit asset.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Discount rate	6.5%	6.5%	7.0%	7.0%
Expected long-term rate of return on plan assets	7.0%	6.5%	—	—
Rate of compensation increase	4.5%	5.0%	4.5%	5.0%

10. Income Taxes

The provision for income taxes in the Consolidated Statements of Earnings and Deficit reflects the consolidation of Superior's income tax recovery.

Effective January 1, 2000 Superior adopted the new recommendations of the CICA with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used based on differences between financial reporting and tax bases of assets and liabilities. Previously, the deferral method was used, based on differences in the timing of reporting income in the financial statements and tax returns. The new method was retroactively applied without restatement of prior year financial statements.

The impact of these recommendations on the opening 2000 financial statements was to increase capital assets by \$3.9 million, increase the deficit by \$5.9 million, and record an additional future tax liability of \$9.8 million. The impact of these recommendations on the 2000 financial results was to reduce income tax expense and increase net earnings before distributions to unitholders by \$6.8 million.

The components of the future income tax liability at December 31, 2001 and 2000 are as follows:

	2001	2000
Excess of carrying value of tangible assets over tax values	\$ (34,202)	\$ (37,603)
Income tax asset related to losses carried forward	13,215	10,147
Accounting reserves, deductible when paid	3,828	5,877
	\$ (17,159)	\$ (21,579)

Total income taxes are different than the amount computed by applying the combined expected Canadian and Provincial tax rates of 42.1% (2000: 44.6%) to income before taxes. The reasons for these differences are as follows:

	2001	2000
Earnings before distributions to unitholders	\$ 37,390	\$ 26,838
Earnings from investment in ICG	—	(5,555)
Income tax recovery of Superior	(3,654)	(9,965)
Earnings of the Fund before taxes and distributions to unitholders	\$ 33,736	\$ 11,318
Canadian statutory rate of income taxes	42.1%	44.6%
Computed tax expense	\$ 14,203	\$ 5,048
Increase (decrease) in income taxes resulting from:		
Tax effect of interest expense eliminated on consolidation	(25,404)	(16,975)
Impact of reductions in federal and provincial income tax rates	(1,099)	(6,089)
Large corporations tax	767	680
Permanent difference - goodwill amortization	7,462	7,905
Other items, net	417	(534)
Reported recovery of income taxes	\$ (3,654)	\$ (9,965)

Taxes paid during 2001 totaled \$0.8 million (2000: \$0.7 million) and were comprised solely of federal large corporations tax.

11. Unitholders' Equity

Authorized

Pursuant to the Declaration of Trust, an unlimited number of units may be issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privileges.

(i) Distributable cash flow and net earnings per trust unit, before distributions to unitholders, have been calculated using the average number of Trust Units outstanding during the period (45.8 million in 2001; 45.8 million in 2000).

(ii) Future Financing

The Fund, at the direction of Superior, is obligated to use its best commercial efforts to raise funds to acquire additional Shareholder Notes and Common Shares of Superior to provide Superior with additional capital.

(000s)	Issued Number of Units	Equity
Unitholders' equity, December 31, 1999	45,794	\$ 443,862
Trust unit option plan (Note 13)	15	—
Earnings before distributions to unitholders	—	26,838
Distributions to unitholders	—	(63,201)
Retroactive adjustment re change in accounting policy (Note 9)	—	(3,890)
Retroactive adjustment re change in accounting policy (Note 10)	—	(5,913)
Unitholders' equity, December 31, 2000	45,809	\$ 397,696
Trust unit option plan (Note 13)	63	—
Issue of Debentures (Note 12)	—	97,000
Accretion of Debentures of \$428, net of corresponding charge to deficit	—	—
Conversion of Debentures of \$20, net of Trust Unit options issued	1	—
Earnings before distributions to unitholders	—	37,390
Distributions to unitholders	—	(76,580)
Distributions to debentureholders	—	(6,843)
Unitholders' equity, December 31, 2001	45,873	\$ 448,663

12. Convertible Debentures

On January 31, 2001, the Fund issued Subscription Receipts representing the right to receive \$100 million, 8% unsecured subordinated convertible debentures maturing on July 31, 2007 (the "Debentures") pending the approval by unitholders of certain modifications of the Fund's Declaration of Trust to allow for the issuance of the Debentures. This approval was received on March 7, 2001.

The Debentures may be converted into Trust Units at the option of the holder at a conversion price of \$16.00 per Trust Unit at any time prior to maturity and may be redeemed by the Fund in certain circumstances. The Fund may elect to pay interest and principal upon maturity or redemption by issuing units to a trustee in the case of interest payments, and to the Debenture holders in the case of payment of principal. The number of any units issued will be determined based on market prices for the units at the time of issuance.

The Debentures and related interest obligation have been classified as equity on the consolidated balance sheet because the Fund may elect to satisfy the Debenture interest and principal obligations by the issuance of Trust Units. The carrying value of the Debentures of \$97 million is composed of interest payment, holder's option and principal amount components of \$40 million, \$1 million and \$56 million, respectively. Similarly, interest payments on the Debentures are charged directly to the deficit.

The Debentures' fixed 8% interest rate obligation was swapped into a floating interest rate obligation in order to maintain the existing floating interest rate profile of the Bank Advances that were repaid. The floating interest rate obligation was subsequently swapped into a fixed interest rate obligation for the period from August 2001 to January 2003, resulting in an effective interest rate of 5.9% over that period. During 2001, Superior received payments of \$1.3 million pursuant to these interest rate swap agreements which have been included in interest expense on the Consolidated Statements of Earnings and Deficit (see Note 8). Net interest paid on the Debentures for the year amounted to \$6.8 million.

The fair values of the Debentures and the related interest rate swaps at December 31, 2001 are an obligation of \$106.3 million and an asset of \$1.6 million, respectively.

13. Trust Unit Option Plan

The Fund has a Trust Unit Incentive Plan ("TUIP") through which market growth options may be issued to the Fund trustees and to directors, senior officers and employees of Superior. Under the TUIP, the number of Trust Units issued is equal to the growth in value of the options at the time the options are exercised, represented by the market price less the exercise price times the number of options exercised, divided by the current market price of the Trust Units issued. Under the TUIP, options are granted for a four-year term and if granted on or after October 27, 1999, are exercisable as to 33 1/3% immediately and an additional 33 1/3% on the first and second anniversary of the date of grant. Options granted prior to October 27, 1999 are exercisable in whole or in part at any time prior to their expiry date.

A summary of the status of the Fund's TUIP as at December 31, 2001 and 2000 and changes during these years is summarized below:

	2001		2000	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Options outstanding at beginning of year	805	\$ 13.74	641	\$ 14.17
Granted	319	15.88	387	12.84
Exercised	(427)	13.80	(122)	13.22
Forfeited	(97)	14.90	(101)	13.70
Options outstanding at end of year	600	\$ 14.76	805	\$ 13.74
Options exercisable at end of year	324	\$ 14.59	537	\$ 14.06

The following summarizes information about the Trust Unit options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	(000s) Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	(000s) Exercisable at December 31, 2001	Weighted Average Exercisable Price
\$10.45 - \$13.75	155	2.0 years	\$ 12.71	101	\$ 13.10
\$13.76 - \$16.30	445	2.8 years	\$ 15.47	223	\$ 15.27

14. Related Party Transactions and Agreements

A group of senior executives of Superior, together with Enterprise Capital Management Inc. (the "SCMI Executives"), operating under the name of Superior Capital Management Inc. ("SCMI") hold an approximate 10% ownership in the Fund as well as the rights under the Superior Management Agreement and the Fund's Administration Agreement. See Management Agreement and Administration Agreement below.

(i) Management Agreement

Pursuant to the Management Agreement between SCMI and Superior dated October 8, 1996 as amended (the "Management Agreement"), SCMI provides senior executive management and other support services to Superior. The Management Agreement provides for the full recovery of all expenses, including general and administrative expenses, of SCMI attributable to the management of Superior. For the year ended December 31, 2001, Superior paid SCMI \$733,250 (2000: \$393,000) related to salary and benefit expenses incurred by SCMI for the SCMI Senior Executives.

The Management Agreement entitles SCMI to earn incentive fees which are based upon the level of cash flow distributed to the Fund in respect of a calendar year. The incentive fees are payable annually on April 15th of the year following the applicable year. SCMI, as the manager, will be entitled to incentive fees when distributions by Superior in respect of a year are within the following target ranges:

	Cash flow distributed to the Fund per Trust Unit	Incentive fee entitlement of the Manager
	Less than \$1.27	Nil
First target	\$1.28 to \$1.45	15%
Second target	\$1.46 to \$1.89	25%
Third target	\$1.90 and greater	50%

Distributions with respect to Superior's 2001 operations reached the equivalent of \$1.71 per Trust Unit (2000: \$1.58 per Trust Unit), resulting in the accrual for 2001 management incentive fees of \$5.6 million (2000: \$3.7 million). All payments made pursuant to the Management Agreement have been included as part of operating and administrative expenses. The initial term of this Management Agreement is for 10 years and is automatically renewed for three year periods thereafter. SCMI may terminate the Management Agreement at any time following a one year notice period. Superior may terminate the Management Agreement by the payment of an amount equal to the average of the actual Management Incentive Fees paid by Superior in the immediately preceding two fiscal years and the budgeted fees in the current or forthcoming year, multiplied by ten and subject to a minimum payout of \$5.0 million.

(ii) Administration Agreement

Pursuant to an Administration Agreement between SCMI, Superior and the Fund, SCMI acts as an administrator and advisor for the Fund. For the year ended December 31, 2001, the Fund paid SCMI \$269,379 (2000: \$260,954) in respect of administration and advisory fees pursuant to this agreement. The term of the Administration Agreement is the same as the Management Agreement except that the minimum payout is \$2.5 million.

(iii) ICG

Until September 30, 2000, ICG was a wholly owned subsidiary of Superior and was accounted for using the equity method (See Note 3). In 2001 Superior received or accrued distributions from ICG of \$nil million (2000: \$20.5 million). As at December 31, 2000, there were no accrued dividends receivable from ICG included in accounts receivable. From time to time, Superior borrowed from ICG on commercial terms. ICG funded these borrowings from existing cash reserves or drawings on its revolving term bank credit facility. As at December 31, 2000, Revolving Term Bank Credits included no amounts that had been borrowed from ICG. Interest paid to ICG during 2000 under the arrangement was \$1.1 million.

(iv) Management Trust Unit Purchase Plan Loan Guarantee

Six executive officers and two senior employees of Superior have obtained guarantees from Superior under the terms of the Management Trust Unit Purchase Plan (the "MTUPP") established by Superior in January 1999. Under the terms of the MTUPP, participants may acquire Trust Units of the Fund through open market purchases in pledge accounts established by individual participants with an investment dealer. Participants borrow directly from a chartered bank the entire cash amount required to make the Trust Unit purchases with Superior currently guaranteeing up to 66% of the loan amount. As at December 31, 2001, the aggregate quoted market value of Trust Units owned under the MTUPP was \$7.4 million. The aggregate amount of participant loans from a chartered bank was \$6.3 million, which were supported by guarantees of Superior aggregating \$4.4 million.

15. Operating Lease Commitments

Superior leases buildings and propane marketing equipment under operating leases which expire in various years through 2009. Future minimum lease payments under operating leases with initial terms or remaining terms of one year or more at December 31, 2001 were:

2002	\$ 6,848
2003	6,023
2004	4,963
2005	2,894
2006 and thereafter	4,455

16. Comparative Figures

Certain reclassifications of prior year amounts have been made to conform with current year presentation.

CORPORATE *and Unitholder Information*

TRUSTEES AND OFFICERS SUPERIOR PROPANE INCOME FUND

Peter A. W. Green

Chairman, Superior Propane Income Fund
Chairman, The Frog Hollow Group
Director, Superior Propane Inc.

John S. Burns, Q.C.

Senior Partner
Bennett Jones LLP

Norman R. Gish

President
Gish Consulting Inc.

Theresia R. Reisch

Manager, Investor Relations
Secretary to the Fund

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
3000 Scotia Centre
700-2nd Street S.W.
Calgary, Alberta T2P 0S7

TRUST UNITS & DEBENTURES

The Fund is listed on The Toronto Stock Exchange. Trust Units trade under the symbol SPF.UN and Debentures under the symbol SPF.DB.

FOR UNITHOLDER REGISTRATION AND TRANSFER SERVICES, CONTACT:

CIBC Mellon Trust Company
PO Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2E9
Answer Line: (416) 643-5500
Facsimile: (416) 643-5501
Toll Free: 1-800-387-0825
E-mail: inquiries@cibcmellon.com
Website: www.cibcmellon.com

BOARD OF DIRECTORS SUPERIOR PROPANE INC.

Grant D. Billing

Executive Chairman
Superior Propane Inc.

Robert J. Engbloom

Partner
Macleod Dixon LLP

Peter A. W. Green

Chairman
The Frog Hollow Group

Allan G. Lennox

Principal
AG Lennox & Associates

James S. A. MacDonald

Chairman and Managing Partner
Enterprise Capital Management Inc.

Geoffrey N. Mackey

President and Chief Executive Officer
Superior Propane Inc.

David P. Smith

Managing Partner
Enterprise Capital Management Inc.

OFFICERS SUPERIOR PROPANE INC.

Grant D. Billing

Executive Chairman

Geoffrey N. Mackey

President and Chief Executive Officer

W. Mark Schweitzer

Executive Vice President,
Corporate Development and
Chief Financial Officer

John W. Cooper

Senior Vice President and
Chief Operating Officer

David P. Balicki

Vice President, Eastern Operations

Gregory D. Stewart

Vice President, Business Services

Gordon C. Weicker

Vice President, Western Operations

Theresia R. Reisch

Manager, Investor Relations
Secretary to Superior

FOR FINANCIAL AND OTHER INFORMATION ABOUT THE FUND, CONTACT:

Theresia R. Reisch
Manager, Investor Relations
Secretary to Superior and the Fund
Telephone: (403) 730-5818
Facsimile: (403) 730-7519
E-mail: reischt@superiorpropane.com

TO RECEIVE AN INVESTOR'S PACKAGE OR TO BE ADDED TO THE MAILING LIST FOR UNITHOLDER INFORMATION, CONTACT:

Sandra M. Watson
Corporate Administrator
Telephone: (403) 730-5809
Facsimile: (403) 730-7519
E-mail: watsonsm@superiorpropane.com

The Annual Meeting of unitholders of the Fund will be held in the Strand/Tivoli Room of the Metropolitan Centre, 333-4th Avenue S.W., Calgary, Alberta, on Thursday, April 25, 2002 at 9:30 a.m. local time.

Superior Propane Income Fund
1111-49th Avenue N.E.
Calgary, Alberta T2E 8V2
Canada

General Telephone: (403) 730-7500
General Facsimile: (403) 730-7512
Toll Free Number: 1-877-341-7500
Website: www.superiorpropane.com

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A strategic part of your home, business and portfolio.

Superior has been a recognized brand name in the Canadian propane industry for over 50 years. We are committed to delivering value to our customers and investors.



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